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Long-Term-Care Insurance: How Much Is Too Much?

By SUSAN B. GARLAND

AFTER more than two decades on the market, long-term-care insurance remains a tough sell. Only 10 percent of people over 65 own policies, with many holdouts saying that they are intimidated by high costs and the bewildering array of benefit levels, deductible periods and other features.

Like most insurance, policies for long-term care protect against improbable events. But unlike homeowners' insurance and auto insurance, this coverage often requires a lifetime commitment to one insurer; premiums can rise sharply if the policyholder switches. And while health insurance covers immediate issues, buyers of long-term-care insurance can pay premiums for decades with no way to predict if their coverage is what they will need.

"People are confused because they are first-time buyers and have not built up the reservoir of experiences in buying and using benefits," said Jesse Slome, president of Sales Creators Inc., which publishes Long-Term Care Insurance Sales Strategies, an industry magazine. "They're so afraid of making a mistake that either they'll buy too much or they'll buy nothing because they can't afford the price tag."

Consumers who want to protect themselves in the event of the worst-case outcome - many years in a nursing home - can spend at least \$10,000 a year on premiums for full coverage. According to a survey by the MetLife Mature Market Institute, the average cost of a year in a private room of a nursing home was \$70,080 in 2003, though prices vary greatly by region: \$36,135 in Shreveport, La., for example, but \$113,880 in New York City.

But a new study shows that only a small percentage of policyholders need care for long periods - four years or more. So a growing number of specialists recommend more modest policies for which the policyholder pays a bigger share of the costs.

Customers who want to hedge their bets can buy a policy to cushion part of the financial blow. They must be prepared to pay for part of their care out of pocket, so they must assess their financial situation and study the many options. Many may need no coverage, including people with few or substantial assets, specialists say. "Some insurance agents still strongly believe that people should buy the maximum possible for a policy to be worthwhile," said Dawn Helwig, a principal in Chicago of Milliman Inc., and co-author of the new study on insurance claims. "But those policies are very expensive. It puts you into the Cadillac market all the time, and a lot of Chevy owners are missed." Forgoing some bells and whistles can reap big savings. At one insurer, a single 65-year-old who buys a policy with a \$200 daily benefit for life with a 30-day deductible can pay \$9,936 a year, according to Long-Term Care Quote, an agency in Chandler, Ariz. For \$2,964, the company will sell a policy with a \$150 daily benefit for three years and a 90-day deductible.

Robert W. Davis, the agency's chief executive, said consumers should consider several solid insurers. Generally, Mr. Davis said, policyholders won't be collecting benefits until 15 to 20

years after they buy a policy, "so they want a highly rated and financially stable carrier." He suggested reviewing the ratings at Standard & Poor's, A. M. Best and Weiss Ratings.

There's still no guarantee that a company will be around when you need it. In recent years, big players like Transamerica and [CNA Financial](#) have left the individual market. They must still honor contracts, but "a company that is no longer actively selling is more likely to follow the letter of the contract rather than respond in a more positive way," said Tom Riekse Jr., executive vice president of LTCI Partners, an agency in Libertyville, Ill.

Consumers should also review retirement assets. Not everyone needs long-term-care insurance, said John E. Ryan, head of Ryan Insurance Strategy Consultants in Greenwood Village, Colo., a brokerage firm and adviser to financial planners. People with a net worth of \$1 million to \$1.5 million, not including the family home, could probably self-insure, meaning pay the cost out of their pocket, he said.

Those with a net worth of less than \$250,000 may not have enough liquid assets to warrant years of premiums, Mr. Ryan said. They may be better off receiving benefits from state Medicaid programs, which require "spending down" assets, generally to \$2,000, to become eligible; Congress is considering proposals to require the elderly to exhaust even more financial resources before they can become eligible.

Many people in the middle could "integrate their insurance with other assets," buying a lower-premium policy that would entail some direct costs, Mr. Ryan said. Mr. Ryan suggested that consumers consult a financial planner or other specialist for an estimate of how much care they could afford beyond what insurance covers. It would be a mistake, Mr. Ryan said, for consumers to believe that they can accumulate enough for care by investing the equivalent of the premium each year. A 55-year-old who invested \$2,000 a year - the premium for one insurer's high-deductible policy that pays \$65,700 a year for three years - would save \$172,750 by age 85, Mr. Ryan said. (That assumes annual interest of 6.5 percent.) By the time that person turned 85, a single year of care could run \$283,951, assuming that costs rose 5 percent a year, he said.

Buying a policy earlier can lower premiums. A policy that cost a 65-year-old \$2,964 a year would cost a 45-year-old \$1,584, according to Long Term Care Quote. Younger applicants are also less likely to be denied coverage for health reasons. A study by Wakely Consulting Group, an actuarial firm in Clearwater, Fla., found that for 100,000 applications from 2003 and 2004, 11 percent of applicants in their 50's were denied coverage, compared with 19 percent in their 60's and 43 percent in their 70's. But those in their 40's, the industry's newest targets, should defer the decision until they are 55 or 60, specialists say. Younger people face more pressing needs, like college costs and mortgage payments, that could force them to lapse on payments and lose all that they have paid.

"We encourage people to buy coverage once they have a nest egg to preserve," Mr. Davis said. "When the last child has graduated college, you won't have a big need for life insurance, so you can move those premiums into long-term-care insurance." Many policyholders buy coverage expecting premiums to stay the same for life. In the past few years, though, several insurers, who underestimated outlays and investment income, have increased premiums on current policyholders. While states generally do not permit insurers to raise an individual's

premiums based on age and health, companies can seek permission from state regulators to increase rates for all holders of a particular policy.

The good news is that many policies now cover home care, assisted living, respite care and hospice care; two decades ago, many covered only nursing home care. Policy shoppers should make sure that a plan offers at least home care and assisted living coverage, and will pay as much for those as for nursing home care.

Another crucial feature is the benefit period, which can run from two years to a lifetime. But a study of 137,514 claims on 1.7 million policies by Ms. Helwig of Milliman and a colleague found that most policyholders eligible for lifetime coverage made claims for only short periods. The findings challenged the picture that many insurers paint of the elderly languishing indefinitely in residential institutions.

The study, released in April, found that only 3.6 percent of claims filed for nursing home, assisted living and home services were for care that lasted four to five years, and 4.3 percent were for care lasting more than five years. In 76.7 percent of claims, care lasted less than two years.

ABOUT a third of all policyholders, though, had policies that provided benefits for seven years to a lifetime, Milliman found. Policyholders pay a high cost for unneeded benefits: a three-year policy costs 36 percent to 39 percent less than one with lifetime benefits. "I would go for four or five years of coverage, but for someone who has limited income and assets, three years should be satisfactory," Ms. Helwig said. A shorter benefit period makes sense in the four states that offer "partnership" policies - New York, Connecticut, California and Indiana. Medicaid will pick up the bill once an individual depletes significant assets; in these states, consumers who buy policies from selected insurers may protect additional assets if the cost of care exceeds a policy's total payout. For instance, someone who buys a policy that pays out \$100,000 can protect an extra \$100,000 in assets and still be eligible for Medicaid.

One way for married couples to get more years of coverage is to buy joint benefits. Spouses can take out separate policies that enable one to tap into the other's benefits. Or they can buy a single policy that allows each spouse to draw on the total years - for instance, six years split any way they want. Such policies make particular sense for wives, who tend to require care longer than their husbands.

Buyers can also save by opting for a longer deductible. An "elimination period" can be as long as 100 days, during which the policyholder must pay the full cost of care. A policy with a 90-day elimination period costs about 30 percent less than one with a 30-day elimination period. Many specialists recommend the 90-day version as long as people realize that they may have to pay \$12,000 to \$25,000 in current dollars out of pocket.

One place not to skimp is inflation protection, insurance specialists say. Only 40 percent of new policyholders buy such protection, says AARP, which estimates that the price of a day in a medium-cost nursing home could more than quintuple by 2035. If Congress decides to change Medicaid rules, a larger number of elderly people may give long-term-care insurance a second look. A lesser-frills policy, though still costly, may provide the safety net that many risk-averse elderly people need.